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25X1A ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW  
ENDING 16 FEBRUARY 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR,  
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

USSR: ORDERS FOR WESTERN EQUIPMENT PLUMMET IN 1977.

1. AFTER REACHING A RECORD \$5.8 BILLION IN 1976,  
SOVIET ORDERS FOR WESTERN MACHINERY AND EQUIPMENT FELL SHARPLY  
TO \$3.3 BILLION IN 1977, THE LOWEST LEVEL IN THREE YEARS. THE  
DROP STEMMED LARGELY FROM MOSCOW'S DESIRE TO FURTHER CURB  
ITS HARD CURRENCY TRADE DEFICIT. THE DEFICIT HAD REACHED A  
RECORD HIGH OF \$6.4 BILLION IN 1975 AND HAD BEEN BROUGHT  
DOWN TO \$5.5 BILLION IN 1976 AND TO AN ESTIMATED \$4 BILLION  
IN 1977. LAST YEAR'S REDUCTION IN EQUIPMENT ORDERS SUGGESTS  
A SUBSTANTIAL DECLINE IN SOVIET IMPORTS OF WESTERN EQUIPMENT  
IN 1978 FROM LAST YEAR'S \$6 BILLION LEVEL AS WELL AS A  
REDUCTION IN OVERALL IMPORTS. NEW ORDERS FOR MACHINERY AND  
EQUIPMENT ARE EXPECTED TO REBOUND THIS YEAR, ESPECIALLY FOR  
THE OIL AND GAS INDUSTRY.

INDUSTRIES AFFECTED.

2. MORE THAN ONE-HALF THE 1977 DROP IN ORDERS WAS  
ACCOUNTED FOR BY A \$1.5 BILLION CUT IN NEW CONTRACTS FOR OIL  
AND GAS EQUIPMENT, REFLECTING IN PART SERIOUS DELAYS ON  
PIPELINE PROJECTS. TO SPEED UP THE PACE, THE OIL, GAS, AND  
CONSTRUCTION MINISTRIES ARE SHIFTING PIPELAYING CREWS FROM  
CENTRAL ASIA AND THE URALS-VOLGA REGION TO WEST SIBERIA  
AND THE ORENBURG GAS PIPELINE. CONTRACTS FOR THE ORENBURG  
LINE, PARTICULARLY FOR COMPRESSOR STATIONS, SWELLED THE 1976  
ORDER LIST BY NEARLY \$1 BILLION; NO COMPARABLE CONTRACTS WERE  
SIGNED IN 1977.

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3. CONTRACTS FOR WESTERN METALWORKING AND METALLURGICAL EQUIPMENT FELL FROM \$1 BILLION IN 1976 TO \$500 MILLION IN 1977. MORE THAN ONE-HALF THE 1977 TOTAL WAS MADE UP OF YEAREND ORDERS FOR WEST GERMAN DIRECT REDUCTION AND PELLETIZING EQUIPMENT FOR THE KURSK STEEL COMBINE. THESE PURCHASES ARE DESIGNED TO COPE WITH THE INCREASING USE OF LOW-GRADE IRON ORES, A PROBLEM THAT HAS PREEMPTED THE BULK OF RECENT INVESTMENT IN THE FERROUS METALS INDUSTRY. TOO LITTLE INVESTMENT HAS GONE FOR IMPROVEMENT OF FACILITIES THAT TURN OUT FINISHED STEEL PRODUCTS WITH ADVANCED TECHNICAL CHARACTERISTICS.

4. ORDERS FOR WESTERN CHEMICAL EQUIPMENT DECLINED BY ROUGHLY \$280 MILLION. NEW CONTRACTS WERE CONCENTRATED ON MACHINERY FOR THE MANUFACTURE OF (A) PETROCHEMICALS, PARTICULARLY INTERMEDIATES FOR THE PRODUCTION OF PLASTICS AND SYNTHETIC FIBERS; AND (B) CHEMICAL FERTILIZERS, WHICH ARE NEEDED IN TREMENDOUS QUANTITIES TO IMPLEMENT PLANS FOR AGRICULTURAL GROWTH. LARGE PURCHASES INCLUDED THREE CHEMICAL FERTILIZER PLANTS AND 10 AMMONIA PLANTS TOTALING \$380 MILLION FROM JAPAN AND TWO METHANOL PLANTS WORTH \$250 MILLION FROM THE UNITED KINGDOM. MOSCOW ALSO GAVE THE BRITISH ORDERS FOR A \$139 MILLION MATERIALS PROCESSING PLANT FOR TIRES AND AN \$86 MILLION POLYETHYLENE PLANT.

5. IN CONTRAST TO THE OVERALL DECLINE IN ORDERS, CONTRACTS NEARLY DOUBLED FOR MINING MACHINERY, FOR EXAMPLE OFF-HIGHWAY TRUCKS AND SLURRY EQUIPMENT FOR USE IN COAL-MINING OPERATIONS IN EAST SIBERIA. MOSCOW HAS RECENTLY UPPED THE PRIORITY OF COAL PRODUCTION AND DISTRIBUTION.

6. THE SLACKING OFF OF ORDERS AND DELIVERIES OF FOREIGN EQUIPMENT SHOULD NOT DAMAGE SHORT-TERM SOVIET INDUSTRIAL PERFORMANCE; IT MAY WELL FACILITATE MOSCOW'S PLAN IN 1977 TO TRY TO CATCH UP ON THE BACKLOG OF UNFINISHED CONSTRUCTION AND UNINSTALLED MACHINERY. IN RECENT YEARS, THE SOVIETS HAVE BEEN PARTICULARLY SLOW TO BRING NEW CAPACITY ON STREAM, ESPECIALLY IN THE CASE OF FOREIGN-MADE EQUIPMENT.

#### ORDERS AND CREDITS.

7. EXCEPT FOR THE UNITED KINGDOM, SOVIET ORDERS IN 1977 WERE DOWN SUBSTANTIALLY FOR EACH MAJOR HARD CURRENCY TRADING PARTNER--WEST GERMANY, JAPAN, FRANCE, ITALY, AND THE UNITED STATES. WITH INCREASING UNEMPLOYMENT AND SLUGGISH EXPORT GROWTH, AUTHORITIES IN SEVERAL OF THESE COUNTRIES WERE

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ESPECIALLY SENSITIVE TO THE DECLINE IN SOVIET CONTRACTS. MOSCOW TOOK ADVANTAGE OF THE SITUATION BY DEMANDING MORE FAVORABLE TERMS THAN THOSE PERMITTED BY THE GENTLEMEN'S AGREEMENT--A CONSENSUS DESIGNED TO PREVENT WESTERN CUTTHROAT COMPETITION ON DIRECT GOVERNMENT AND GOVERNMENT-GUARANTEED CREDITS. IN RETURN THE USSR PROMISED TO PLACE MORE ORDERS IN 1978. FRANCE, ITALY, AND JAPAN WENT ALONG, THUS PROVIDING THE SOVIETS WITH CHEAPER CREDITS FOR EQUIPMENT THEY HAD PLANNED TO ORDER IN ANY CASE.

SOVIET ORDERS PLACED IN JAPAN IN 1977 TOTLED ONLY \$664 MILLION, A LITTLE LESS THAN ONE-HALF THE 1976 LEVEL. THE JAPANESE, WHO HAD NOT ADVANCED OFFICIAL CREDITS TO THE USSR FOR NEARLY A YEAR, SIGNED A LOAN PACKAGE IN JUNE 1977 WORTH MORE THAN \$300 MILLION TO FINANCE THE EXPORT OF CHEMICAL PLANTS AND IN NOVEMBER EXTENDED A \$200 MILLION CREDIT FOR THE PURCHASE OF LARGE-DIAMETER STEEL PIPE.

MOSCOW CUT ITS ORDERS FOR ITALIAN MACHINERY LAST YEAR BY ONE-THIRD, A REDUCTION OF \$164 MILLION, THE SOVIETS SIGNED AN AGREEMENT WITH ITALY IN NOVEMBER FOR A NEW LINE OF CREDIT TOTALING \$650 MILLION.

THE SOVIETS SLASHED ORDERS FOR FRENCH MACHINERY BY NEARLY \$1.2 BILLION IN 1977. FRANCE CONSENTED TO A SOVIET REQUEST TO CONTINUE PREVIOUSLY AGREED UPON INTEREST RATES THROUGH 1978 INSTEAD OF THE HIGHER RATES CALLED FOR BY THE GENTLEMEN'S AGREEMENT.

ORDERS IN 1978.

8. WE EXPECT SOVIET ORDERS FOR WESTERN MACHINERY, PARTICULARLY OIL AND GAS EQUIPMENT, TO MAKE A COMEBACK IN 1978. LARGE QUANTITIES OF EXPLORATION AND DEVELOPMENT EQUIPMENT ARE NEEDED IF MOSCOW EXPECTS EVEN TO MAINTAIN CURRENT LEVELS OF OIL PRODUCTION OVER THE NEXT SEVERAL YEARS. IN ADDITION, FURTHER PURCHASES OF COMPRESSORS, VALVES, AND LARGE-DIAMETER PIPE ARE REQUIRED TO SUSTAIN THE GROWTH IN GAS OUTPUT.

9. NEGOTIATIONS ARE ALREADY UNDER WAY ON LARGE CONTRACTS. PROSPECTIVE CONTRACTS INCLUDE A \$138 MILLION ORDER FOR THE EXPANSION OF THE DRILL BIT PLANT AT KUYBYSHEV AND THE PURCHASE OF GAS-LIFT EQUIPMENT--WHICH COULD REACH \$1 BILLION OVER A FIVE-YEAR PERIOD--FOR THE GIANT SAMOTLOR OILFIELD AND THE FEDOROV FIELD IN WEST SIBERIA. MOSCOW REPORTEDLY IS SHOPPING FOR OFFSHORE OIL EQUIPMENT TO BE USED IN THE CASPIAN SEA, THE OFFSHORE AREAS OF SAKHALIN, AND EVENTUALLY THE BARENTS SEA.

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10. ORDERS FOR THE METALWORKING AND METALLURGY INDUSTRIES THIS YEAR ARE EXPECTED TO PICK UP FROM 1977 LEVELS. MOSCOW COULD SIGN SOME LARGE CONTRACTS FOR ELECTRIC FURNACES, CONTINUOUS CASTING FACILITIES, AND ROLLING MILLS, ALL FOR THE \$1 BILLION KURSK METALLURGICAL COMBINE; THIS EQUIPMENT IS DESIGNED TO BOLSTER THE PRODUCTION AND QUALITY OF FINISHED STEEL PRODUCTS. IN ADDITION, THE SOVIETS AFTER SEVERAL YEARS OF SHOPPING MAY FINALLY PLACE AN ORDER FOR A \$1 BILLION ALUMINUM PLANT TO BE LOCATED IN SAYAN-SHUSHENSK, WEST SIBERIA.

11. NO SUBSTANTIAL CHANGE IN AGGREGATE SOVIET ORDERS FOR WESTERN CHEMICAL EQUIPMENT IS EXPECTED. EMPHASIS WILL BE PUT ON PETROCHEMICAL EQUIPMENT; NEGOTIATIONS CURRENTLY ARE UNDER WAY FOR THE CONSTRUCTION OF A PETROCHEMICAL COMPLEX IN TOMSK AND A PLANT TO PRODUCE INTERMEDIATES FOR THE PRODUCTION OF SYNTHETIC RUBBER AT TOBOLSK. SINCE THE USSR CONTINUES TO PRESS FOR PRODUCT PAY-BACK AGREEMENTS TO ENSURE FUTURE EXPORTS OF CHEMICAL PRODUCTS, WESTERN FIRMS WILLING TO ENTER

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INTO THESE AGREEMENTS ARE LIKELY TO GET MORE OF MOSCOW'S BUSINESS. (SECRET) E1,2,3 IMPDET WNINTEL.>

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